

(3) Paragraph (1) of section 2208 of the Public Health Service Act is amended by adding at the end the following new sentence: "Such term shall not include any plan substantially all of the coverage under which is for qualified long-term care services (as defined in section 7702B(c) of Code)." 42 USC 300b-8.

(e) CLERICAL AMENDMENT.—The table of sections for chapter 79 is amended by inserting after the item relating to section 7702A the following new item:

26 use 17026 "Sec. 7702B. Treatment of qualified long-term care insurance".

(f) EFFECTIVE DATES.—

(1) GENERAL EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in subparagraph (B), the amendments made by this section shall apply to contracts issued after December 31, 1996.

(2) RESERVE METHOD.—The amendment made by subsection (b) shall apply to contracts issued after December 31, 1997.

(2) CONTINUATION OF EXISTING POLICIES.—In the case of any contract issued before January 1, 1997, which met the long-term care insurance requirements of the State in which the contract was situated at the time the contract was issued—

(3) such contract shall be treated for purposes of the Internal Revenue Code of 1986 as a qualified long-term care insurance contract (as defined in section 7702B(h) of such Code), and

(4) services provided under, or reimbursed by, such contract shall be treated for such purposes as qualified long-term care services (as defined in section 7702B(c) of such Code).

In the case of an individual who is covered on December 31, 1996, under a State long-term care plan (as defined in section 7702B(f)(2) of such Code), the terms of such plan on such date shall be treated for purposes of the preceding sentence as a contract issued on such date which met the long-term care insurance requirements of such State.

(5) EXCHANGES OF EXISTING POLICIES.—If, after the date



of enactment of this Act and before January 1, 1998, ~~a~~  
contract  
providing for long-term care insurance coverage is  
exchanged  
solely for a qualified long-term care insurance  
contract (as  
defined in section 7702B(b) of such Code), no gain or  
loss  
shall be recognized on the exchange. If, in addition to a  
qualified  
long-term care insurance contract, money or other  
property  
is received in the exchange, then any gain shall be  
recognized  
to the extent of the sum of the money and the fair  
market  
value of the other property received. For purposes of  
this para-  
graph, the cancellation of a contract providing for  
long-term  
care insurance coverage and reinvestment of the  
cancellation  
proceeds in a qualified long-term care insurance  
contract within  
60 days thereafter shall be treated as an exchange.  
(6) ISSUANCE OF CERTAIN RIDERS PERMITTED. ~~—~~ For  
purposes  
of applying sections 101(f), 7702, and 7702A of the  
Internal  
Revenue Code of 1986 to any contract ~~—~~

(A) the issuance of a rider which  
is treated as a quali-  
fied long-term care insurance  
contract under section 7702B,  
and